

TENNESSEE REGULATORY AUTHORITY

Eddie Roberson, Ph.D.
Director



460 James Robertson Parkway
Nashville, TN 37243-0505

September 19, 2008

Chairman Tre Hargett
Director Mary W. Freeman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

RE: Petition Of Tennessee American Water Company To Change And Increase Certain Rates
And Charges So As To Permit It To Earn A Fair And Adequate Rate Of Return On Its
Property Used And Useful In Furnishing Water Service To Its Customers
TRA Docket 08-00039

Dear Chairman Hargett and Director Freeman:

Please find the attached motion that I plan to make in our scheduled Authority Conference on
September 22, 2008 in the above-referenced docket. For your convenience, I am filing this today
in order that you have sufficient time to review it prior to the Conference.

Please note that with the filing of this motion, deliberations have commenced and no additional
filings or comments from the parties are appropriate or should be considered.

Sincerely,

A handwritten signature in black ink, appearing to read "Eddie Roberson", is written over a large, stylized circular flourish.

Eddie Roberson, Ph.D.
Director

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Attachment

c: Docket File 08-00039

Director Roberson's Motion
Docket No. 08-00039

Test Period and Attrition Period

Because the TRA is not limited to adopting one test period for use throughout this case, I find that the normalized test period for the twelve months ended November 30, 2007 as proposed by the Company or the Consumer Advocate's March 31, 2008 normalized test period are both acceptable and move that the Authority use the test period which best fits the individual items being forecasted.

Because both the Company and the Consumer Advocate (CAPD) are in agreement as to the attrition period, I move we adopt the forward looking attrition period of the twelve months ending August 31, 2009.

Revenues

I move that the Authority adopt an attrition period revenue of \$38,934,309. This amount is derived from:

- 1) estimating a Residential revenue of \$16,056,235;
- 2) accepting the Company's attrition period Commercial revenue price-out of \$11,564,336 (although this does imply acceptance of the Company's methodology);
- 3) accepting the Company's attrition period Industrial revenue price-out of \$3,909,461;
- 4) accepting the Company's attrition period Other Public Authority revenue price-out of \$2,611,410;
- 5) accepting the CAPD's attrition period Other Water Utilities revenue of \$1,821,321;
- 6) accepting the CAPD's attrition period Fire Service revenue of \$1,578,438; and
- 7) accepting the CAPD's attrition period Other Operating Revenues of \$1,393,048.

Expenses

Salaries and Wages

I move that the Authority adopt the Salaries and Wages Expense for the attrition period of \$4,877,597 as forecasted by the Consumer Advocate.

Purchased Water

I move that the Authority adopt the Company's attrition period forecast of \$52,110 for Purchased Water Expense.

Fuel and Power

I move that the Authority adopt the Fuel and Power Expense for the attrition period of \$1,892,131. This amount is based on the volumes associated with an attrition period revenue of \$38,873,946, adjusted to include the revised fuel and power rates submitted by the Company; and a water loss percentage of 15%.

Chemicals

I move that the Authority adopt the Chemicals Expense for the attrition period of \$1,492,460. This amount is based on the volumes associated with an attrition period revenue of \$38,873,946, adjusted to include the revised chemical rates submitted by the Company; and a water loss percentage of 15%.

Waste Disposal

I move that the Authority adopt the Company's attrition period forecast of \$179,088 for Waste Disposal Expense.

Management Fees

I move to set the attrition year amount at \$3,529,933. This amount is based on the Company's forecasted 2005 Management fee amount from Docket No. 04-00288 used by the Consumer Advocate in this docket and changing the growth factor to include all customer growth instead of half of customer growth.

I also move that the Authority order the Company to develop a Request For Proposal ("RFP") for a comprehensive management audit by an independent CPA. The audit shall include, but not be limited to, an investigation of AWWC's management performance and decisions relating to internal processes and internal controls with an attestation and recommendation of any needed changes. Further, the audit should evaluate and attest to the charges allocated to TAWC, including the efficiency of processes/and or functions performed on behalf of TAWC as well as the accuracy and reasonableness of the allocation factors utilized. This RFP should be filed in this docket no later than six months from September 22, 2008 for approval with the Authority before issuing the RFP.

Group Insurance

I move that the Authority adopt the CAPD's forecasted Group Insurance Expense of \$1,672,934 for the attrition period.

Pensions

I move that the Authority adopt the CAPD's attrition period forecast of \$1,156,442 for Pension Expense.

Regulatory Expense

I move that the Authority adopt \$194,852 as the Regulatory Expense for the attrition period.

Insurance Other Than Group

I move that the Authority adopt the CAPD's attrition period projection of \$534,380 for Insurance other than Group Insurance Expense.

Customer Accounting

I move that the Authority adopt the CAPD's projection for Customer Accounting Expense of \$763,785 for the attrition period.

Uncollectible Expense

I move that the Authority adopt an Uncollectible Expense at current rates of \$417,756, which is based upon the Company booked amount for the twelve (12) months ended November 30, 2007, plus a normalizing adjustment.

Rents

I move that the Authority adopt the Company's attrition period forecast of \$11,336 for Rent Expense.

General Office Expense

I move that the Authority adopt the CAPD's projection for General Office Expense of \$256,041.

Miscellaneous Expense

I move that the Authority adopt the CAPD's attrition period forecast for Miscellaneous Expense of \$1,802,072.

Other Maintenance Expense

I move that the Authority adopt the CAPD's attrition period forecast for Other Maintenance Expense of \$822,075.

Depreciation and Amortization Expense

I move that the Authority adopt the CAPD's forecast for Depreciation and Amortization Expense of \$4,366,120 for the attrition period.

Taxes Other Than Income

Gross Receipts Tax

I move that the Authority adopt Gross Receipts Tax of \$357,833 for the attrition period revenue at current rates and an additional \$14,883 for the attrition period revenue at new rates.

TRA Inspection Fees

I move that the Authority adopt TRA Inspection Fees for attrition period revenue at current rates of \$74,171 and an additional \$3,289 for the attrition period revenue at new rates.

Property Taxes

I move that the Authority adopt Property Taxes for the attrition period of \$2,896,268.

Franchise Taxes

I move that the Authority adopt Franchise Taxes for the attrition period of \$400,236.

FICA Tax

I move that the Authority adopt the CAPD's attrition period forecast of \$366,896 for FICA Tax.

Unemployment Tax

I move that the Authority adopt the CAPD's attrition period forecast of \$7,270 for Unemployment Tax.

State Excise Tax

I move that the Authority adopt an Excise Tax for the attrition period of \$434,632.

Federal Income Tax

I move that the Authority adopt Federal Income Tax for the attrition period of \$2,111,835.

Allowance for Funds Used During Construction (AFUDC)

I move that the Authority adopt an Allowance for Funds Used During Construction (AFUDC) of \$463,690.

Net Operating Income

Based upon the preceding determinations, I move that the Authority find the Net Operating Income is \$8,727,809 for the attrition period prior to the application of taxes for the additional attrition period revenues.

Rate Base

I move that the Authority adopt a rate base of \$121,689,263 for the attrition year ending August 31, 2009 consisting of the following:

Utility Plant in Service

I move that the Authority adopt the CAPD's attrition period Utility Plant in Service of \$209,341,111.

Construction Work in Progress (CWIP)

I move that the Authority adopt of the CAPD's attrition period CWIP amount of \$5,284,789.

Utility Plant Capital Lease

I move that the Authority adopt the Company's uncontested attrition period forecast for Utility Plant Capital Lease of \$1,590,500.

Working Capital

I move that the Authority adopt a Working Capital Requirement of \$318,827 for the attrition period.

Accumulated Depreciation

I move that the Authority adopt the CAPD's attrition period accumulated depreciation of \$62,426,348.

Retired Work In Process (RWIP)

I move that the Authority adopt the unchallenged RWIP amount of (\$151,351) for the attrition period.

Accumulated Amortization of Utility Capital Lease

I move that the Authority adopt the agreed upon attrition period forecast for Accumulated Amortization of Utility Capital Lease of \$1,139,858.

Accumulated Deferred Income Taxes

I move that the Authority adopt the CAPD's revised Accumulated Deferred Income Taxes of \$15,242,359 for the attrition period.

Customer Advances for Construction

I move that the Authority adopt the CAPD's calculation for Customer Advances for Construction of \$7,628,149 for the attrition period.

Contributions In Aid of Construction (CIAC)

I move that the Authority adopt the CAPD's calculation for the attrition period CIAC of \$8,459,113.

Unamortized Investment Tax Credit (UITC)

I move that the Authority adopt \$34,123 for the attrition period Unamortized Investment Tax Credit.

Utility Plant Acquisition Adjustment

I move that the Authority adopt the Company's calculation of \$67,365 as agreed to by the CAPD.

Revenue Conversion Factor

I move that the Authority adopt an overall Revenue Conversion Factor of 1.650838.

Rate of Return

I move that Tennessee American's rate of return be set using a double leveraged capital structure. To implement the double leverage methodology, I move that the Authority set the portion of Tennessee American's capitalization held by parties outside the American

Water Works system to be 7.39% at a weighted cost of 8.36%. For Tennessee American's parent company, I move adoption of a capital structure consisting of 52.46% long-term debt, 2.66% short-term debt, 0.05% preferred stock and 44.83% equity. In addition, I move adoption of a long-term debt cost of 6.26%, a short-term debt cost of 3.85% and the cost of preferred stock of 5%. I move adoption of an equity return of 10.2%. Using these values, I move for an overall rate of return of 7.99% for Tennessee American.

Revenue Deficiency

Based upon the preceding determinations, I find that the Revenue Deficiency is \$1,655,541 for the attrition period.

Rate Design

I move that the panel deny Company's proposed tariff and instruct the Company to file a new tariff within thirty (30) days with new rates reflecting a 4.37% increase to the overall revenues in each class allocated as follows:

- (1) a 4.37% increase to each base and volumetric rate for each customer class, with the exception of the Other Water Utilities class;
- (2) a 4.37% increase to the rates for Catoosa and Fort Oglethorpe;
- (3) a 12.77% increase to the rates for Signal Mountain at the earliest date allowed by the contract;
- (4) a 12.77% increase to the rates for and Walden's Ridge at the earliest date allowed by the contract; and
- (5) a decrease to commercial revenues of approximately \$75,000 effective September 2009, to account for the additional revenue recovered by annualizing the Signal Mountain and Walden's Ridge rate increase.